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If you have sold or transferred all your shares in China Star Entertainment Limited (the “Company”), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

CONNECTED TRANSACTION — ISSUE OF CONVERTIBLE BONDS AND NOTICE OF SPECIAL GENERAL MEETING

Financial Advisers to the Company



Mansion House Securities (F.E.) Limited

Nuada Limited
Corporate Finance Advisory

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the board of directors of the Company is set out on pages 7 to 23 of this circular. A letter from independent board committee of the Company (“Independent Board Committee”) is set out on pages 24 and 25 of this circular and a letter from Donvex Capital Limited to the Independent Board Committee and the independent shareholders of the Company is set out on pages 26 to 40 of this circular.

A notice convening the special general meeting (the “SGM”) of the Company to be held at Board Room (1st Floor), South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 6 May 2011 at 4:00 p.m. is set out on pages 48 and 49 of this circular. If you are unable to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it in the Code
“Announcement”	the announcement jointly issued by the Company and Eternity dated 9 February 2011 relating to, among others, the Subscription
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Capital Reorganisation”	the proposed capital reorganisation of the Company, involving (i) the consolidation of every ten (10) issued and unissued Existing Shares of HK\$0.01 each into one (1) consolidated Existing Share of HK\$0.10 each; (ii) the capital reduction of the nominal value of all the authorised Existing Share from HK\$0.10 each to HK\$0.01 each and the credit arising from reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (iii) increase of authorised share capital of the Company, to be approved by the Shareholders at a special general meeting of the Company dated 6 May 2011. Details of the capital reorganisation of the Company has been disclosed in the announcement of the Company dated 9 February 2011 and the circular of the Company dated 7 March 2011
“Code”	the Hong Kong Code on Takeovers and Mergers
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Convertible Bonds”	the convertible bonds in the maximum principal amount of HK\$650 million to be issued by the Company in two tranches pursuant to the Subscription Agreement
“Conversion Price”	the initial conversion price of HK\$0.08 per Conversion Share or HK\$0.80 per Conversion Share upon the Capital Reorganisation becoming effective (subject to adjustment) pursuant to the terms of the Convertible Bonds
“Conversion Rights”	the rights attached to the Convertible Bonds to convert the principal amount (or any part(s) thereof) of the Convertible Bonds into Conversion Shares at the Conversion Price
“Conversion Share(s)”	the New Share(s) to be issued by the Company under the Convertible Bonds upon exercise of the Conversion Rights
“Directors”	directors of the Company
“Eternity”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability and the issued Eternity Shares are listed on the Main Board of the Stock Exchange
“Eternity Group”	Eternity and its subsidiaries
“Eternity SGM”	the special general meeting of Eternity to be convened to approve the transactions contemplated in the Subscription Agreement and the subscription of the Convertible Bonds and the conversion of the Convertible Bonds
“Eternity Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of Eternity
“Eternity Shareholder(s)”	the holder(s) of the issued Eternity Share(s)
“Existing Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the Capital Reorganisation becoming effective

DEFINITIONS

“First Tranche Subscription”	the subscription of the first tranche of the Convertible Bonds by Eternity to subscribe for the Convertible Bonds in the principal amount of HK\$350,000,000 pursuant to the terms and conditions of the Subscription Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive directors of the Company, to advise the Independent Shareholders
“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder
“Independent Shareholders”	the Shareholders other than Eternity, Mr. Heung, Ms. Chen and their respective associates
“Instruments”	the instruments to be executed by the Company by way of a deed poll constituting the Convertible Bonds to be issued upon completion of the First Tranche Subscription and the Second Tranche Subscription
“Last Trading Day”	21 January 2011, being the last trading day before the publication of the Announcement
“Latest Practicable Date”	28 March 2011, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Lot 6B”

an undeveloped parcel of land named as “Quarteirao 6 – Lote B”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,420 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 27/SATOP/89, published in the Macau Official Gazette on 26 December 1989, and later reviewed by Dispatch no. 149/SATOP/97, published in the Official Gazette no. 49 of 3 December 1997, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22608 and currently bounded by Rua de Xiamen on the west and Rua de Luis Gonzaga Gomes on the north, is adjacent to Lot 6C to the east

“Lot 6C”

an undeveloped parcel of land named as “Quarteirao 6 – Lote C”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 148/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22618 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6B on the west and Lot 6D on the east

“Lot 6D”

an undeveloped parcel of land named as “Quarteirao 6 – Lote D”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 149/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22619 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6C on the west and Lot 6E on the east

DEFINITIONS

“Lot 6E”	an undeveloped parcel of land named as “Quarteirao 6 – Lote E”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 150/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Property Registered under no. 22620 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6D on the west
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director and a former executive director of Eternity
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director and a former executive director of Eternity
“New Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
“Second Tranche Subscription”	the subscription of the second tranche of the Convertible Bonds by Eternity to subscribe for the Convertible Bonds in the principal amount of HK\$300,000,000 pursuant to the terms and conditions of the Subscription Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened and held at Board Room (1st Floor), South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 6 May 2011 at 4:00 p.m. to consider and, if thought fit, approve, inter alia, the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights

DEFINITIONS

“Share(s)”	Existing Share(s) and/or New Share(s), as the case may be
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Simple View”	Simple View Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Eternity
“Sites”	Lot 6B, Lot 6C, Lot 6D and Lot 6E
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the First Tranche Subscription and/or the Second Tranche Subscription
“Subscription Agreement”	the conditional subscription agreement dated 21 January 2011 (as supplemented by the supplemental agreement dated 28 March 2011) entered into between the Company and Eternity in relation to the Subscription
“substantial shareholders”	has the meaning ascribed to it in the Listing Rules
“Warrants”	the outstanding warrants in an aggregate principal amount of HK\$111,525,643.67 entitling the holders thereof to subscribe for new Existing Shares at an adjusted subscription price of HK\$0.185 per Existing Share as at the date of the Subscription Agreement (adjusted to HK\$0.182 per Existing Share upon completion of placing of 577,855,000 new Existing Shares on 27 January 2011, subject to further adjustment) pursuant to the warrant instrument of the Company dated 15 June 2010
“Works License”	the license for construction work issued by the Macau Land and Public Works Department
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

Executive Directors:

Mr. Heung Wah Keung (*Chairman*)
Ms. Chen Ming Yin, Tiffany (*Vice Chairman*)
Ms. Li Yuk Sheung

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Independent non-executive Directors:

Mr. Hung Cho Sing
Mr. Ho Wai Chi, Paul
Mr. Leung Hok Man

*Head office and principal place
of business in Hong Kong*

Unit 3409 Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

1 April 2011

*To the Shareholders and, for information only
the holders of warrants and options of the Company*

Dear Sir or Madam,

CONNECTED TRANSACTION — ISSUE OF CONVERTIBLE BONDS AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

As stated in the Announcement, on 21 January 2011 (after trading hours of the Stock Exchange), the Company and Eternity entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for the Convertible Bonds in the maximum principal amount of HK\$650 million in two tranches at their face value.

LETTER FROM THE BOARD

As Eternity is a substantial Shareholder and thus a connected person of the Company, the Subscription Agreement and the transactions contemplated thereunder constitute connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. Its recommendation has been disclosed in the letter from Independent Financial Adviser in this circular.

The purpose of this circular is to give you (i) further details of the Subscription Agreement and the transaction contemplated thereunder; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders and the recommendation of the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transaction contemplated thereunder; and (iii) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Parties and date

Date: 21 January 2011 (as supplemented by the supplemental agreement dated 28 March 2011)

Issuer: the Company

Subscriber: Eternity

As at the Latest Practicable Date:

- (a) Eternity, through Simple View, is interested in 680,000,000 Existing Shares, representing approximately 13.84% of the issued share capital of the Company, and the Warrants in an aggregate principal amount of HK\$26,248,000 entitling Simple View to subscribe for 144,219,780 new Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment);
- (b) Mr. Heung and Ms. Chen, who are the executive Directors, resigned as directors of Eternity on 1 February 2010;
- (c) Mr. Ho Wai Chi, Paul, an independent non-executive Director, resigned as a director of Eternity on 25 May 2010, Mr. Ho does not hold any Existing Shares or Warrants as at the date of the Subscription Agreement; and

LETTER FROM THE BOARD

- (d) Mr. Heung, Ms. Chen and their respective associates are interested in aggregate 246,852,025 Existing Shares, representing approximately 5.03% of the issued share capital of the Company, and the Warrants in an aggregate principal amount of approximately HK\$5,458,311 entitling them to subscribe for 29,990,720 new Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment).

As such, (a) Eternity is a substantial Shareholder and thus a connected person of the Company and (b) Mr. Heung, Ms. Chen and Mr. Ho Wai Chi, Paul are connected persons of Eternity as they were directors of Eternity within twelve months preceding the date of the Subscription Agreement.

Save as disclosed above, to the best of knowledge, information and belief of the Directors and having made all reasonable enquiries, Eternity and its ultimate beneficial owners are third parties independent of and not connected nor acting in concert with any directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates.

Principal terms of the Convertible Bonds

Principal amount: A maximum principal amount of HK\$650 million, of which HK\$350 million for the First Tranche Subscription and HK\$300 million for the Second Tranche Subscription.

Maturity: The fifth anniversary of the date of issue of the Convertible Bonds.

Interest: The Convertible Bonds carry an interest to be accrued at 8% per annum on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of 16% per annum is payable on any overdue amount, whether principal or interest.

Interest on the Convertible Bonds shall be payable on the last day of each interest period, which is of six months intervals commencing from the date of issue of the Convertible Bonds.

LETTER FROM THE BOARD

Redemption: The Company may at any time upon the date of issue and before the maturity date of the Convertible Bonds, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the Convertible Bonds, redeem the Convertible Bonds at par.

Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion Price: HK\$0.08 per Conversion Share or HK\$0.80 per Conversion Share upon the Capital Reorganisation becoming effective (subject to adjustment). The adjustments are subject to review by the Company's auditors or an approved merchant bank. The adjustments for the Conversion Price include the followings:

- (i) an alternation of nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);
- (iii) a capital distribution (as defined in the Instruments) being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such;
- (iv) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 90% of the market price (calculation as provided in the Instruments);

LETTER FROM THE BOARD

- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share (as defined in the Instruments) initially receivable for such securities is less than 90% of the market price (calculation as provided in the Instruments), or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 90% of the market price;
- (vi) an issue being made by the Company wholly for cash of Shares at a price per Share less than 90% of the market price (calculation as provided in the Instruments); and
- (vii) an issue being made by the Company of Shares for acquisition of assets at a total effective consideration per Share less than 90% of the market price (calculation as provided in the Instruments).

The initial Conversion Price of HK\$0.08 represents (i) a premium of approximately 9.59% over the closing price of HK\$0.073 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 11.11% over the average closing prices of approximately HK\$0.072 per Existing Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and (iii) a premium of approximately 40.35% over the closing price of HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

Conversion Shares: Assuming the Convertible Bonds are converted into Existing Shares in full at the initial Conversion Price of HK\$0.08 per Conversion Share, the Company will allot and issue an aggregate of 8,125,000,000 new Existing Shares, representing approximately 187.47% of the issued share capital of the Company as at the date of the Subscription Agreement and approximately 65.21% of the issued share capital of the Company as at the date of the Subscription Agreement as enlarged by allotment and issue of the Conversion Shares.

Assuming the Convertible Bonds are converted into New Shares in full at the initial Conversion Price of HK\$0.80 per Conversion Share, the Company will allot and issue an aggregate of 812,500,000 New Shares, representing approximately 187.47% of the issued share capital of the Company upon the Capital Reorganisation becoming effective and approximately 65.21% of the issued share capital of the Company upon the Capital Reorganisation becoming effective as enlarged by allotment and issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM subject to the Independent Shareholders' approval.

Conversion: Provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) which exercised the Conversion Rights and its party(ies) acting in concert; and (ii) will not cause the public float of the Company unable to meet requirement under Rule 8.08 of the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bonds to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares at the Conversion Price provided further that any conversion shall be made in amounts of not less than a whole multiples of HK\$1 million on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted.

LETTER FROM THE BOARD

- Transferability:** The bondholder(s) may only assign or transfer the Convertible Bonds to the transferee subject to the consent of the Company.
- The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected person.
- Ranking:** The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all issued shares of the Company on the date of the allotment and issue of the Conversion Shares.
- Status of Convertible Bonds:** The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.
- Voting rights:** The holders of the Convertible Bonds shall not be entitled to attend or vote at any general meetings of the Company.
- Application for listing:** No application will be made by the Company for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conditions Precedent

The obligations of the parties to the Subscription Agreement to effect the Subscription shall be conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and Eternity have no reasonable objection) the listing of, and permission to deal in, the Conversion Shares;
- (b) the Independent Shareholders having approved at the SGM the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon the exercise of the Conversion Rights or otherwise pursuant to the terms and conditions of the Convertible Bonds;

LETTER FROM THE BOARD

- (c) the Eternity Shareholders (other than those who are required to abstain from voting, if any) having approved at the Eternity SGM the transactions contemplated in the Subscription Agreement and the subscription of the Convertible Bonds and the conversion of the Convertible Bonds;
- (d) there being no occurrence of circumstances which, in the reasonable opinion of Eternity, will have a material adverse effect on the financial condition, prospects, earning, business, undertaking or assets of the Company and its subsidiaries, in each case, taken as a whole, since the date of the Subscription Agreement;
- (e) all the representations, warranties and undertakings made by the Company in the Subscription Agreement remaining true, accurate and complete in all material respects and not misleading in any material respect;
- (f) all necessary consents and approvals required to be obtained on the part of the Company and Eternity in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained;
- (g) if necessary, the Bermuda Monetary Authority granting consent for the allotment and issue of Conversion Shares upon conversion of the Convertible Bonds; and
- (h) the Shareholders (other than those who are required to abstain from voting, if any) having approved at a special general meeting of the Company the acquisition of the Sites.

If the conditions precedent as set out above are not fulfilled on or before 31 July 2011 (or such other date as may be agreed by the Company and Eternity in writing), the Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches of the Subscription Agreement.

According to the Subscription Agreement, the Subscription is not conditional on the completion of the proposed acquisition of the property leasehold right in respect of the Sites as announced by the Company on 7 January 2011. As set out in the paragraph headed “Completion” below, the Company shall produce to Eternity the Works License (工程准照) in respect of the Sites issued by the Macau Government for completing the Second Tranche Subscription. Accordingly, if the Company cannot produce the Works License (工程准照) to Eternity, the Second Tranche Subscription is not proceeded.

LETTER FROM THE BOARD

Completion

Completion of the First Tranche Subscription shall take place on the date falling on the third business day (or such other date as may be agreed by the Company and Eternity in writing) after the fulfillment of the conditions as set out in the section headed “Conditions Precedent” above.

Completion of the Second Tranche Subscription is also subject to the following conditions and shall take place on or before 30 June 2012 (or such other date as may be agreed by the Company and Eternity in writing):

- (a) The Company shall produce to Eternity the Works License (工程准照) in respect of the Sites issued by the Macau Government;
- (b) Eternity shall have received evidence to its satisfaction that the proceeds from the Second Tranche Subscription of HK\$300 million will be applied for the purpose of developing the Sites; and
- (c) Eternity has sufficient fund available for the Second Tranche Subscription.

For the provision of evidence by the Company in applying the proceeds from the Second Tranche Subscription for development of the Sites, Eternity expects, including but not limited to, a written confirmation from the Directors and/or an opening of a designated bank account for the use of proceeds.

As the directors of Eternity give top priority to develop the Eternity Group’s own business, Eternity does not have any plan to ensure it has sufficient fund for the Second Tranche Subscription. In addition, Eternity has reserved its right to conclude whether it has sufficient fund available for the Second Tranche Subscription. In the event that Eternity does not have sufficient fund, the Second Tranche Subscription will lapse. Pursuant to the Subscription Agreement, there is no arrangement between the Company and Eternity if Eternity considers that it does not have sufficient fund.

Termination

Eternity may, by notice to the Company given at any time prior to the completion of each of the First Tranche Subscription and the Second Tranche Subscription, terminate the Subscription Agreement in any of the following circumstances:

LETTER FROM THE BOARD

In the reasonable opinion of Eternity, the success of the Subscription would be materially and adversely affected by:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Eternity materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Subscription; or
- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Eternity materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the Subscription; or
- (c) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction of trading in securities) occurs which in the reasonable opinion of Eternity is likely to materially or adversely affect the success of the Subscription or otherwise makes it inexpedient or inadvisable to proceed with the Subscription; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (e) any suspension in the trading of securities generally or the securities of the Company on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the Announcement, the circular or other documents in connection with the Subscription; or
- (f) any material breach of any of the representations, warranties or undertakings contained in the Subscription Agreement comes to the knowledge of Eternity.

LETTER FROM THE BOARD

If at any time prior to the completion of each of the First Tranche Subscription and the Second Tranche Subscription any such notice as is referred to above is given by Eternity, the obligations of all parties under the Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches of the Subscription Agreement.

STATUS OF THE CONVERTIBLE BOND SUBSCRIBED BY THE ETERNITY GROUP ON 21 SEPTEMBER 2009

On 21 September 2009, the Eternity Group subscribed the convertible bond in the principal amount of HK\$200,000,000 from the Company pursuant to the conditional subscription agreement dated 23 July 2009.

During the second half of 2009, the Eternity Group converted the convertible bond of HK\$200,000,000 entirely into 1,000,000,000 Existing Shares at a conversion price of HK\$0.20 per Existing Share by three conversions. On 12 October 2009, the Eternity Group disposed of 320,000,000 Existing Shares to independent third parties at a price of HK\$0.20 per Existing Share pursuant to the conditional placing agreement dated 12 October 2009. As a result, the Eternity Group holds 680,000,000 Existing Shares as at the date of the Subscription Agreement.

As at the Latest Practicable Date, save for the 680,000,000 Existing Shares and the Warrants in an aggregate principal amount of HK\$26,248,000 entitling Eternity Group to subscribe for 144,219,780 new Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment), Eternity Group has no other securities which can be converted into Existing Share or New Share.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE SUBSCRIPTION AGREEMENT

As announced by the Company on 7 January 2011, the Group entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the proposed acquisition of the property leasehold right in respect of the Sites at a consideration of HK\$550 million. Given the superb location of the Sites which is adjacent to Hotel Lan Kwai Fong Macau, Macao Polytechnic Institute, Forum de Macao and Golden Lotus and is couple blocks away from Macau Fisherman's Wharf and Sands Casino, the Group intends to develop the Sites into office units and residential apartment for sale and the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art

LETTER FROM THE BOARD

galleries in order to create traffic in the surrounding area of Hotel Lan Kwai Fong Macau. The Directors consider that the proposed acquisition of the property leasehold right in respect of the Sites will diversify the Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long-term profitability. As stated in the Company's announcement dated 7 January 2011 in relation to the proposed acquisition of the property leasehold right in respect of the Sites, the consideration of HK\$550 million will be funded from/by internal resources of the Company, bank borrowings and/or equity financing. The Directors consider that the Subscription Agreement provides an opportunity to the Group for financing the proposed acquisition and the development of the Sites.

The Directors (excluding Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive Directors, whose view are included in the letter from Independent Board Committee in this circular) consider the terms of the Convertible Bonds is fair and reasonable taking into account the following:

- (a) the Conversion Price is arrived at after arm's length negotiation and on normal commercial terms between the Company and Eternity with reference to the prevailing share prices of the Company; and
- (b) the interest rate and default interest rate of the Convertible Bonds are determined with reference to the prime rate of Hong Kong given the Convertible Bonds is unsecured.

Notwithstanding the potential dilution effect on the shareholdings of the existing Shareholders upon any conversion of the Convertible Bonds, the Directors (excluding Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive Directors, whose view are included in the letter from Independent Board Committee in this circular) consider that the Subscription Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole taking into account the following:

- (a) it represents opportunities to raise additional capital for the Company without having immediate dilution effect on the shareholding of the existing Shareholders in order to satisfy the financial needs of the Group for the proposed acquisition of the leasehold property right of the Sites and the development of the Sites;
- (b) compared to debt financing, which requires lengthy due diligence review of the financial position of the Group by or pledging of assets of the Group to banks or financial institutions;

LETTER FROM THE BOARD

- (c) the restriction under the terms of the Convertible Bonds that conversion of the Convertible Bonds shall not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties (i.e. 30% or more of the voting rights under the existing Code); and
- (d) upon exercise of the Conversion Rights, the shareholder base of the Company will be enlarged and the financial position of Group will be strengthened.

The estimated maximum proceeds from the issue of the Convertible Bonds (after deducting all relevant expenses) of approximately HK\$649.50 million will be used for financing the proposed acquisition of the property leasehold right in respect of the Sites as announced by the Company on 7 January 2011, the development of the Sites and/or the general working capital of the Group.

Despite the fact that the completion of the acquisition of the Sites is not a conditional precedent to the completion of the First Tranche Subscription, the Board is of the view that the entering into the Subscription Agreement is to the benefit and in the interest of the Company and the Shareholders as a whole based on the following:

- (a) enables the Group to satisfy the financial requirement for the proposed acquisition of the property leasehold right in respect of the Sites in timely matter in the event that the proposed acquisition is approved by the Shareholders;
- (b) provide financial flexibility to the Group to release its obligations by redeem the outstanding Convertible Bonds at any time before its maturity; and
- (c) enables the Group to avoid external financings which require pledge of the Group's assets by financial institutions.

In the event that the proposed acquisition of the property leasehold right in respect of the Sites is not approved by the Shareholders, the Convertible Bonds will not issued. In the event that the proposed acquisition of the property leasehold right in respect of the Sites can not completed after the resolution in respect of such proposed acquisition is approved by the Shareholders, the Board will consider to procure other investment opportunities which align with the business of the Group or to redeem any of the outstanding Convertible Bonds at the relevant time. As at the Latest Practicable Date, no new investment opportunity has been identified by the Board.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company is in the process of preparing the circular in respect of the proposed acquisition of the property leasehold right of the Sites. The Board expects that the circular in respect of the proposed acquisition of the property leasehold right of the Sites will be despatched to the Shareholders as soon as possible and the completion of the proposed acquisition is expected to be on or before 31 May 2011.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) assuming the Capital Reorganisation becoming effective; (iii) assuming full conversion of the Convertible Bonds at the Conversion Price upon the Capital Reorganisation becoming effective; (iv) assuming full exercise of the Warrants in an aggregate principal amount of HK\$26,248,000 to subscribe for 14,421,978 New Shares at an adjusted subscription price of HK\$1.82 per New Share (subject to further adjustment) by Eternity and full conversion of the Convertible Bonds at the Conversion Price upon the Capital Reorganisation becoming effective, and (v) assuming conversion of the Convertible Bonds up to the extent that Eternity and Simple View (being the parties acting in concert with it) are interested in less than 30% of the issued share capital of the Company upon the Capital Organisation becoming effective, are set out as below:

	As at the Latest Practicable Date		Assuming the Capital Reorganisation becoming effective		Assuming full conversion of the Convertible Bonds at the Conversion Price upon the Capital Reorganisation becoming effective (Note 1)		Assuming full exercise of the Warrants in an aggregate principal amount of HK\$26,248,000 to subscribe for 14,421,978 New Shares at an adjusted subscription price of HK\$1.82 per New Share (subject to further adjustment) by Eternity and full conversion of the Convertible Bonds at the Conversion Price upon the Capital Organisation becoming effective (Note 1)		Assuming conversion of the Convertible Bonds up to the extent that Eternity and Simple View (being the parties acting in concert with it) are interest in less than 30% of the issued share capital of the Company upon the Capital Organisation becoming effective (Note 1)	
	No. of Existing Shares	Approx.	No. of New Shares	Approx.	No. of New Shares	Approx.	No. of New Shares	Approx.	No. of New Shares	Approx.
Eternity and its associates	680,000,000	13.84%	68,000,000	13.84%	880,500,000	67.54%	894,921,978	67.90%	180,499,976	29.90%
Heung Wah Keung Family Endowment Limited (Note 2)	246,715,000	5.02%	24,671,500	5.02%	24,671,500	1.89%	24,671,500	1.87%	24,671,500	4.09%
Dorest Company Limited (Note 3)	137,025	0.01%	13,702	0.01%	13,702	0.00%	13,702	0.00%	13,702	0.00%
Public Shareholders	3,984,936,732	81.13%	398,493,673	81.13%	398,493,673	30.57%	398,493,673	30.23%	398,493,673	66.01%
Total	4,911,788,757	100.00%	491,178,875	100.00%	1,303,678,875	100.00%	1,318,100,853	100.00%	603,678,851	100.00%

LETTER FROM THE BOARD

Notes:

1. For illustrative purpose only. Pursuant to the terms of the Convertible Bonds, the bondholder(s) shall have the right to convert the Convertible Bonds into the Conversion Shares, provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules.

For compliance with Rule 26 of the Code, the bondholder(s) and/or the Company may, before any conversion of the Convertible Bonds, consult the relevant authority regarding the relevant requirements under Rule 26 of the Code in force under the then existing regime from time to time.

2. Heung Wah Keung Family Endowment Limited is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.
3. Dorest Company Limited is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The Existing Shares held by Dorest Company Limited are under a charging order.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THE ANNOUNCEMENT

Set out below is the fund raising activities conducted by the Company in the past 12 months immediately preceding the date of the Announcement:

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the date of the Announcement
14 January 2011	Placing of up to 577,855,000 Existing Shares, on a best effort basis, at a price of HK\$0.07 per Existing Share	HK\$39.93 million	To satisfy part of the consideration for the proposed acquisition of the property leasehold right of the Sites	The net proceeds will be used as intended
8 July 2010	Rights issue of 1,444,643,184 Existing Shares on the basis of one rights Existing Share for every two Existing Shares held on 20 July 2010 at the subscription price of HK\$0.10 per rights Existing Share	HK\$141.46 million	To reduce the Group's bank borrowings and financing hotel operation or finance the general working capital of the Group	Approximately HK\$41 million has been applied to hotel operation and general working capital of the Group and HK\$100.46 million will be applied to the proposed acquisition of the property leasehold right in respect of the Sites

LETTER FROM THE BOARD

FINANCIAL INFORMATION OF THE ETERNITY GROUP

The Eternity Group recorded an audited net loss before and after taxation of approximately HK\$356.46 million for the financial year ended 31 December 2010, and an audited net profit (from continuing and discontinued operations) before and after taxation of approximately HK\$402.07 million and of approximately HK\$416.56 million, respectively for the financial year ended 31 December 2009. The Eternity Group had audited net assets of approximately HK\$1,344.66 million as at 31 December 2010.

IMPLICATION OF THE LISTING RULES

As at the Latest Practicable Date:

As Eternity is a substantial Shareholder and thus a connected person of the Company, the Subscription Agreement and the transactions contemplated thereunder constitute connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM.

Accordingly, Eternity and its associates shall abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the SGM. Given Mr. Heung and Ms. Chen are connected persons of Eternity, Mr. Heung and Ms. Chen and their respective associates shall also abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the SGM.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholder, other than Eternity, Mr. Heung, Ms. Chen and their respective associates, is required to abstain from voting on the relevant resolutions in respect of the Subscription Agreement and the transactions contemplated thereunder at the SGM.

SGM

A notice convening the SGM to be held at Board Room (1st Floor), South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 6 May 2011 at 4:00 p.m., at which ordinary resolution will be proposed to consider and, if thought fit, to approve the the Subscription Agreement and the transaction contemplated thereunder is set out on pages 48 and 49 of this circular.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (excluding the Independent Board Committee) are of the opinion that the Subscription is in the interests of the Company and the Shareholders as a whole and that the terms of the Subscription Agreement are fair and reasonable so far as Shareholders are concerned. The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers the Subscription is in the interests of the Company and its Shareholders as a whole and that the terms of the Subscription Agreement are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the Independent Board Committee) recommend that all Shareholders should vote in favour of the ordinary resolution proposed at the SGM.

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

1 April 2011

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION — ISSUE OF CONVERTIBLE BONDS

We refer to the circular dated 1 April 2011 issued by the Company (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise you in connection with the Subscription, details of which are set out in the letter from the Board in the Circular. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 26 to 40 of the Circular.

Having considered the terms of the Subscription Agreement and the Subscription, the interest of the Independent Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the Subscription is in the interests of the Company and its Shareholders as a whole and that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Mr. Hung Cho Sing Mr. Leung Hok Man

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

1 April 2011

*To the Independent Board Committee and the Independent Shareholders
China Star Entertainment Limited*

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF CONVERTIBLE BONDS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders with respect to the Subscription, details of which are set out in the letter from the Board contained in the circular dated 1 April 2011 to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meaning as defined elsewhere in the Circular unless the context requires otherwise.

As Eternity (the “Subscriber”) is a substantial shareholder of the Company and thus a connected person of the Company, the Subscription Agreement and the transactions contemplated thereunder constitute connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM. The Subscriber and its associates shall abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the SGM. Given Mr. Heung and Ms. Chen are connected persons of the Subscriber, Mr. Heung, Ms. Chen and their respective associates shall also abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, Mr. Hung Cho Sing and Mr. Leung Hok Man has been established to advise the Shareholders in relation to the Transactions. We, Donvex Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in connection with the Transactions, in particular as to whether the terms of the Agreement are fair and reasonable and on normal commercial terms so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and that they may be relied upon in formulating our opinion. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We also consider that we have taken all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Transactions, we have considered the following principal factors and reasons:

(i) Business of the Group

The Group is principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

(ii) Reason for entering into the Subscription Agreement

As announced by the Company on 7 January 2011, the Group has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the proposed acquisition of the property leasehold right in respect of the Sites at a consideration of HK\$550 million. Given the superb location of the Sites which is adjacent to Hotel Lan Kwai Fong Macau, Macao Polytechnic Institute, Forum de Macao and Golden Lotus and is couple blocks away from Macau Fisherman's Wharf and Sands Casino, the Group intends to develop the Sites into office units and residential apartment for sale and the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding area of Hotel Lan Kwai Fong Macau. The Directors consider that the proposed acquisition of the property leasehold right in respect of the Sites will diversify the Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long term profitability. As stated in the Company's announcement dated 7 January 2011 in relation to the proposed acquisition of the property leasehold right in respect of the Sites, the consideration of HK\$550 million will be funded from/by internal resources of the Company, bank borrowings and/or equity financing. The Directors consider that the Subscription Agreement provides an opportunity to the Group for financing the proposed acquisition and the development of the Sites.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the fact that the completion of the Acquisition of the Sites is not a conditional precedent to the completion of the First Tranche Subscription, the Board is of the view that the entering into the Subscription Agreement is to the benefit and in the interest of the Company and the Shareholders as a whole based on the following:

- (a) Enables the Group to satisfy the financial requirement for the proposed acquisition of the property leasehold right in respect of the Sites in timely matter in the event that the proposed acquisition is approved by the Shareholders;
- (b) Provide financial flexibility to the Group to release its obligations by redeeming the outstanding Convertible Bonds at any time before its maturity; and
- (c) Enables the Group to avoid external financings which require pledging of the Group's asset by the financial institutions.

In the event that the proposed acquisition of the property leasehold right in respect of the Sites can not be completed after the resolution in respect of such proposed acquisition is approved by the Shareholders, the Board will consider to procure other investment opportunities which align with the business of the Group or to redeem any of its outstanding Convertible Bonds at the relevant time. As at the Latest Practicable Date, no new investment opportunity has been identified by the Board.

In view of the above reasons, we consider that the Subscription Agreement is in the interest of the Company and Shareholders as a whole even the completion of Acquisition is not a condition precedent for the subscription of the Convertible Bonds.

(iii) Financial information of the Group

Financial results

The following are the summaries of the results of the Group for the years ended 31 December 2008, 2009 and 2010:

<i>HK\$'000</i>	31 December 2008	31 December 2009	31 December 2010
Revenue	227,747	543,429	864,261
Profit/(Loss) for the year	65,590	164,395	24,827
Cash	138,145	173,188	625,827

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Financing alternative available to the Group

As advised by the Directors, the Company has considered other alternative means of financing, including debt financing and other forms of equity financing. The Directors consider that bank borrowings will inevitably create a higher financing cost to the Group as the lending interest rate of bank financing will not be attractive as compared to the coupon rate of the Convertible Bonds in light of heavy borrowing of the Group for the six months period ended 30 June 2010, amounting to bank borrowing due within one year of approximately HK\$284 million and bank borrowing due after one year of approximately HK\$127 million.

Fund raising by way of new share placement will create immediate dilution on the existing Shareholders and it is also common that the investors will request for a discount of the new share placement price to the prevailing market price of the Shares whereas the initial conversion price of the Convertible Bonds is set at (i) a premium of approximately 9.59% over the closing price of HK\$0.073 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) a premium of approximately 11.11% over the average closing prices of approximately HK\$0.072 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day. Fund raising through rights issue or open offer require a longer time frame to complete as compared to the issue of the Convertible Bonds and may attract a higher transaction cost (such as underwriting and other fees) and dilution effect on those non-participating Shareholders will usually be greater as compared to new share placement and issue of convertibles. After due and careful consideration of various alternatives as discussed above, the Directors consider and we concur with the Directors' view that the issue of the Convertible Bonds is an appropriate means for the Company to secure financing.

(v) Key terms of the Convertible Bonds

Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe for the Convertible Bonds in an aggregate principal amount of HK\$650 million, of which HK\$350 million for the First Tranche Subscription and HK\$300 million for the Second Tranche Subscription. Principal terms of Convertible Bonds are set out in the letter from the Board in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

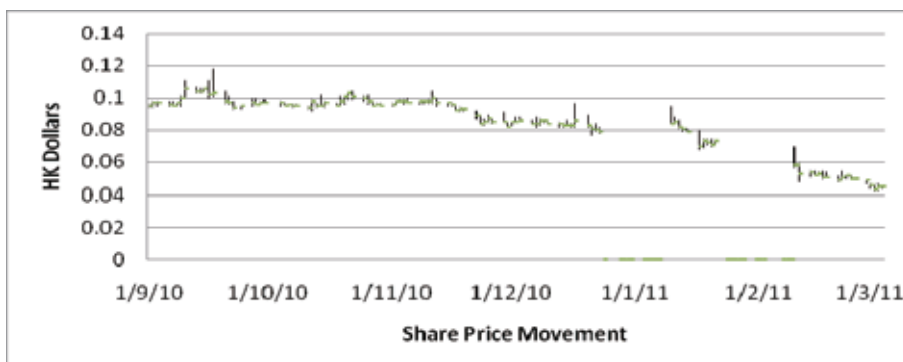
(a) Conversion Price

The Conversion Price, being HK\$0.08 per Conversion Share or HK\$0.8 per Conversion Share upon the Company Capital Reorganization becoming effective (subject to adjustment), represents:

1. A premium of a approximately 9.59% over the closing price of HK\$0.073 per Share as quoted on the Stock Exchange on the Last Trading Day;
2. A premium of approximately 11.11% over the average closing prices of approximately HK\$0.072 per Share as quoted on the Stock Exchange for the last five trading up to and including the Last Trading Day.

We concur with the Directors' view that the premium of the Conversion Price over the prevailing price of the Shares demonstrate the confidence of the management of the Company in the business of the Group. In order to assess the fairness and reasonableness of setting the Conversion Price at HK\$0.08 per Share, we have analysed the historical share price performance of the Company over a longer period.

Set out below is the Share Closing price and volume chart of the Company since 1 September 2010 up to and including the Latest Practicable Date (the "Review Period"), which the trading volume and the Share price should have relied on and reflected the latest financial information from the interim report for the six months period ended 30 June 2010 of the Company:



Source: www.hkex.com.hk

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the Review Period, the closing price of the Shares ranged from the lowest of HK\$0.043 per Share (recorded on 2 March 2011) to the highest of HK\$0.103 per Share (recorded 17 September 2010). The average closing price of the Shares for the Review Period is approximately HK\$0.073 per Share. The Conversion Price is approximately 9.5% higher than the average closing price of the Shares for the Review Period.

(b) Comparison with issues of convertible notes/bonds

In order to evaluate the fairness and reasonableness of the terms of the Convertible Bonds, we have identified, to the best of our knowledge and as far as we are aware of 24 transactions, from September 2010 to the Last Trading Date, by listed companies in the Stock Exchange which involved the relevant fund raising activities and/or consideration issue (the “Comparables”). Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and we have not conducted any in-depth investigation into the business and operations of the Comparables. The Comparables are hence only used to provide a general reference for the common market practice of the companies listed on the Main Board and GEM of the Stock Exchange in Hong Kong in transactions which involved the issue of convertible bonds/notes. The table below illustrates our findings:

Date of announcement	Company name	Stock Code	Premium/(Discount) of the conversion price over/(to) closing price per share on last trading days prior to/on the date of the relevant announcements in relation to the transactions	Term	Interest rate
31 January 2011	Hanny Holdings Limited	275	15.13%	2	2%
3 December 2010	China Uptown Company Limited	2330	2.72%	3	0%
26 November 2010	China Agrotech Holdings Limited	1073	28.21%	5	0%
25 November 2010	Mingfa Group (International) Limited	846	16.94%	5	5%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name	Stock Code	Premium/(Discount) of the conversion price over/(to) closing price per share on last trading days prior to/on the date of the relevant announcements in relation to the transactions	Term	Interest rate
23 November 2010	China Mandarin Holdings Limited	9	(19.77)%	5	0.5%
17 November 2010	Long Success International (Holdings) Limited	8017	51.52%	5	6%
12 November 2010	Mayer Holdings Limited	1116	3.77%	3	5%
9 November 2010	Solargiga Energy Holdings Limited	757	6.08%	2	0%
4 November 2010	Zhongda International Holdings Limited	909	28.21%	1.5	0%
4 November 2010	King Stone Energy Group Limited	663	(10.26)%	5	0%
3 November 2010	Mongolia Energy Corporation Limited	276	11.48%	3	3.5%
2 November 2010	Asia Coal Limited	835	(24.53)%	5	0%
29 October 2010	North Asia Resources Holdings Limited	61	24.09%	3	8%
25 October 2010	Hua Lien International (Holding) Company	969	14.29%	5	0%
19 October 2010	China Nickel Resources Holdings Company	2889	3.4%	2	10%
15 October 2010	Goldin Properties Holdings Limited	283	28.2%	3	8%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name	Stock Code	Premium/(Discount) of the conversion price over/(to) closing price per share on last trading days prior to/on the date of the relevant announcements in relation to the transactions	Term	Interest rate
14 October 2010	Capital Estate Limited	193	5.9%	3	4%
13 October 2010	China HealthCare Holdings Limited	673	(52.94)%	10	0%
8 October 2010	GR Vietnam Holdings Limited	139	7.76%	3	0%
8 October 2010	Sino-Tech International Holdings Limited	724	(16.67)%	5	0%
5 October 2010	Chinasoft International Limited	354	(2.9)%	3	4.25%
4 October 2010	Vitop Bioenergy Holdings Limited	1178	20.77%	1.5	3%
29 September 2010	Sewo International Holdings Limited	209	29.81%	3	2%
24 September 2010	Pacific Plywood Holdings Limited	767	(19.6)%	1	0%

The conversion price of the Comparables ranged from a discount of approximately 52.94% to a premium of approximately 51.52% over the closing prices of their shares on the last trading days prior to the date of announcement/ agreement in relation to the respective issue of convertible notes/bonds. The Conversion Price is hence within the said market range.

Based on the above factors, we consider the Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(c) Maturity

The maturity of the Convertible Bonds is five years and the Company is only obliged to redeem the outstanding principal amount of the Convertible Bonds on the maturity date. The Company intends to use the Principal Amount for the acquisition of the property leasehold right in respect of the Sites. Shareholders should note that the Company may at any time upon the date of issue and before the maturity date of the Convertible Bonds, by serving at least seven days' prior written notice to the bondholders with the total amount proposed to be redeemed from the bondholders specified in the Convertible Bonds, redeem the Convertible Bonds at par. Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

(d) Interest

The Convertible Bonds carry an interest at 8% per annum on the actual number of days elapsed and on the basis of a 365 day year. Having taken into account the fact that (i) the funding requirement for the acquisition of the property leasehold right relating to the Sites; (ii) the unsecured nature of the Convertible Bonds; (iii) the issuance of the Convertible Bonds is the preferred method of financing in the light of (a) the time required; (b) the immediate dilution resulting from other financing method such as placement; and (c) the possible less attractive lending interest rate of bank financing (if available) due to the cashflow of the Company which has approximately HK\$410 million of bank borrowing with the cash at bank of HK\$353 million for the period ended 30 June 2010 which is stated in the latest interim report of the Company. The bank may offer short term bank loan with less attractive terms in the event that the Company may not provide asset for collateral; (iv) the Convertible Bonds that carried 8% interest falls within the range of the annual interest rate of the Comparables from 0% to 10%; and (v) the Company has the right to early redeem all or part of the outstanding principal amount of the Convertible Bonds if the Group is able to secure other financing means with more favourable terms as compared to that of the Convertible Bonds, we consider that the 8% coupon rate is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(e) *Conversion*

Provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) which exercised the Conversion Rights and its party(ies) acting in concert; and (ii) will not cause the public float of the Company unable to meet requirement under Rule 8.08 of the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bonds to convert the whole or part of the outstanding principal amount of the Conversion Shares at the Conversion Price. Although the Subscriber will not be able to exercise the rights attached to the Convertible Bonds due to the above conditions, the Subscriber could instead sell a portion of the existing interest in the Company prior to the exercising the rights attaching to the Convertible Bonds to ensure the above conditions are satisfied. In the event that the Subscriber decides to sell a portion of the existing interest in the Company, it may put pricing pressure on the price of the Shares. We have discussed with the Company and noted that the Subscriber has no intention of selling any of its interest in the Company as at the Latest Practicable Date. As such, we do not consider that there is any disadvantage to the Independent Shareholders in view on the restriction of the exercising the conversion save for above.

(f) *Other terms of the Convertible Bonds*

The Convertible Bonds are transferrable subject to (i) the consent of the Company; and (ii) relevant approvals from the Stock Exchange if so required under the Listing Rules. The Company is also not obliged to issue any Conversion Shares, if and to the extent the issue of the relevant Conversion Shares would lead to an insufficient public float for the Shares (as required under the Listing Rules). We consider the availability of such terms provides protection to the Company for the purpose of listing compliance and such terms are also in line with the market practice.

Based on the above, we concur with the Directors' view that the terms of the Convertible Bonds on normal commercial terms and fair and reasonable, and the entering into of the Subscription Agreement and the transaction contemplated under the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vi) Financial effects of the Acquisition

(a) *Net asset value*

As advised by the Company, the Convertible Bonds to be issued by the Company will be accounted for in two separate components in the Company's balance sheet, including a liability component and an equity component on initial recognition. The liability component will be included on the balance sheet of the Company, whereas the total assets will be increased by the net proceeds of the issue of the Convertible Bonds. The net effect of the aforesaid will be the increase in the equity component on the Company's balance sheet. Accordingly, there will be positive impact on the net asset of the Group upon the issue of the Convertible Bonds.

(b) *Earning*

The liability component of the Convertible Bonds will be carried out at amortised cost using the effective interest method. Only the effective interest expenses of the Convertible Bonds would be charged to the consolidated income statement subsequent to the completion of issue of the Convertible Bonds and for five years onward. The effective interest expenses of the Consolidated Bonds will continuously be incurred by the Group until conversion and/or redemption of the Convertible Bonds in full. No gain or loss will be recognized in the Group's consolidated income statement upon initial recognition, conversion or expiration of the Convertible Bonds.

Although the carrying interest of the Convertible Bonds will create negative impact on the future earnings of the Group, the issue of the Convertible Bonds is considered necessary in order to allow the Group to facilitate the acquisition of the property leasehold right in respect of the Sites.

(c) *Liquidity and working capital*

As at 30 June 2010, the Group had cash and cash equivalent of approximately HK\$353 million. Immediately upon completion of the issue of the Convertible Bonds, the Company would raise net proceeds of approximately HK\$350 million from the First Tranche Subscription and the liability portion of the Convertible Bonds will be treated as non-current liability of the Group. Accordingly, the liquidity and working capital position of the Group will be improved immediately upon completion of the issue of the Convertible Bonds.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(v) Potential dilution effect on the shareholdings of the Independent Shareholders

The shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) assuming the Capital Reorganization becoming effective; (iii) assuming full conversion of the Convertible Bonds at the Conversion Price upon the Capital Reorganization becoming effective; (iv) assuming full exercise of the Warrants in an aggregate principal amount of HK\$26,248,000 to subscribe for 14,421,978 New Shares at an adjusted subscription price of HK\$1.82 per New Share (subject to further adjustment) by Eternity and full conversion of the Convertible Bonds at the Conversion Price upon the Capital Organization becoming effective, and (v) assuming conversion of the Convertible Bonds up to the extent that Eternity and Simple View (being the parties acting in concert with it) are interested in less than 30% of the issued share capital of the Company upon the Capital Organization becoming effective are set out as below:

	As at the Latest Practicable Date		Assuming the Capital Reorganization becoming effective		Assuming full conversion of the Convertible Bonds at the Conversion Price upon the Capital Reorganization becoming effective		Assuming full exercise of Warrants in an aggregate principal amount of HK\$26,248,000 for 14,421,978 New Shares at an adjusted subscription price of HK\$1.82 per New Share (subject to further adjustment) by Eternity and full conversion of the Convertible Bonds at the Conversion Price upon the Capital Organization becoming effective		Assuming conversion of the Convertible Bonds up to the extent that Eternity and Simple View (being the parties acting in concert with it) are interest in less than 30% of the issue share capital of the Company upon the Capital Organization becoming effective			
							No of New				No of New	
							Shares	%			Shares	%
Eternity and its associates	680,000,000	13.84	68,000,000	13.84	880,500,000	67.54	894,921,978	67.9	180,499,976	29.90		
Heung Wah Keung Family Endowment Limited	246,715,000	5.02	24,671,500	5.02	24,671,500	1.89	24,671,500	1.87	24,671,500	4.09		
Dorest Company Limited	137,025	0.01	13,702	0.01	13,702	0.00	13,702	0.00	13,702	0.00		
Public Shareholders	3,984,936,732	81.13	398,493,673	81.13	398,493,673	30.57	398,493,673	30.23	398,493,673	66.01		
Total	4,911,788,757	100	491,178,875	100	1,303,678,875	100	1,318,100,853	100	603,678,851	100		

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note:

1. Pursuant to the terms of the Convertible Bonds, the bondholder(s) shall have the right to convert the Convertible Bonds into the Conversion Shares, provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules.

For compliance with Rule 26 of the Code, the bondholder(s) and/or the Company may, before any conversion of the Convertible Bonds, consult the relevant authority regarding the relevant requirements under Rule 26 of the Code in force under the then existing regime from time to time.

2. Heung Wah Keung Family Endowment Limited is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.
3. Dorest Company Limited is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung, The Existing Shares held by Dorest Company Limited are under a charging order.

Full conversion of the Convertible Bonds would result into an issue of 8.125 billion Existing Shares (based on the initial Conversion Price), which represents approximately 165.42% of the existing issued share capital and 62.32% of the enlarged issued share capital as a result of the full conversion of the Convertible Bonds. Dilution effect on the existing public Shareholders of approximately 50% is considered significant. However, taking into account of (i) the funding requirement for the acquisition of the property leasehold right relating to the Sites; (ii) the unsecured nature of the Convertible Bonds; (iii) the issuance of the Convertible Bonds is the preferred method of financing in the light of (a) the time required; (b) the potential dilution resulting from other financing method; and (c) the possible less attractive lending interest rate of bank financing (if available); (iv) the Company has the right to early redeem all or part of the outstanding principal amount of the Convertible Bonds if the Group is able to secure other financing means with more favourable terms as compared to that of the Convertible Bonds; and (v) the dilution effect on the existing public Shareholders is only approximately 15% as Eternity and the parties acting in concert with it are interested in less than 30% of the issued share capital of the Company upon the Capital Reorganization becoming effective, we consider the entering into of the Subscription Agreement and the transaction contemplated under the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution relating to the Subscription at the SGM respectively. We also recommend the Independent Shareholders to vote in favour of the resolution in relation the Subscription at the SGM.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. SHARE CAPITAL

(a) Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation becoming effective; (iii) immediately after the Capital Reorganisation becoming effective and following completion of the Subscription and full conversion of the Convertible Bonds; and (iv) immediately after the Capital Reorganisation becoming effective, assuming full exercise of the Warrants and following completion of the Subscription and full conversion of the Convertible Bonds, is as follows:

(i) *As at the Latest Practicable Date*

Authorised share capital: *HK\$*

<u>50,000,000,000</u> Existing Shares	<u>500,000,000.00</u>
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Issued and fully paid share capital or credited as fully paid:

<u>4,911,788,757</u> Existing Shares	<u>49,117,887.57</u>
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(ii) *Immediately after the Capital Reorganisation becoming effective*

Authorised share capital: *HK\$*

<u>50,000,000,000</u> New Shares	<u>500,000,000.00</u>
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Issued and fully paid share capital or credited as fully paid:

<u>491,178,875</u> New Shares	<u>4,911,788.75</u>
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(iii) Immediately after the Capital Reorganisation becoming effective and following completion of the Subscription and full conversion of the Convertible Bonds

Authorised share capital: HK\$

<u>50,000,000,000</u>	New Shares	<u>500,000,000.00</u>
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Issued and fully paid share capital or credited as fully paid:

491,178,875	New Shares	4,911,788.75
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<u>812,500,000</u>	Conversion Shares	<u>8,125,000.00</u>
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<u>1,303,678,875</u>	New Shares	<u>13,036,788.75</u>
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(iv) Immediately after the Capital Reorganisation becoming effective, assuming full exercise of the Warrants, following completion of the Subscription and full conversion of the Convertible Bonds

Authorised share capital: HK\$

<u>50,000,000,000</u>	New Shares	<u>500,000,000.00</u>
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Issued and fully paid share capital or credited as fully paid:

491,178,875	New Shares	4,911,788.75
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	New Shares to be issued assuming	
61,277,826	full exercised of the Warrants	612,778.26

<u>812,500,000</u>	Conversion Shares	<u>8,125,000.00</u>
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<u>1,364,956,701</u>	New Shares	<u>13,649,567.01</u>
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All the issued New Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the New Shares which will be in issue upon completion of the Subscription will rank pari passu in all respects with the Existing Shares in issue including as regards to all rights as to dividends, voting and return of capital.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

As at the Latest Practicable Date, the interests of the Directors in the shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Capacity	Number of Existing Shares held	Number of underlying Existing Shares held	Total interest	Approximate % of interests held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/interest of controlled corporation	246,852,025 (Note a)	730,009,246 (Note b)	976,861,271	19.88
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/interest of controlled corporation	246,852,025 (Note a)	730,009,246 (Note b)	976,861,271	19.88
Ms. Li Yuk Sheung	Beneficial owner	—	19,419,969	19,419,969	0.44

All interests stated above represent long positions.

Notes:

- (a) These Shares are held as to 246,715,000 Existing Shares by Heung Wah Keung Family Endowment Limited which is owned as to 50% by Ms. Chen and as to 50% by Mr. Heung and as to 137,025 Existing Shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).
- (b) These underlying Existing Shares comprised (i) outstanding options of the Company which are held as to 9,263 options by Mr. Heung and as to 9,263 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the options of each other; (ii) HK\$5,453,022 Warrants convertible into 29,961,659

Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share and approximately HK\$5,289 Warrants convertible into 29,061 Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share held by Heung Wah Keung Family Endowment Limited and Dorest Company Limited respectively; and (iii) HK\$350,000,000 conversion bonds to be issued to Ms. Chen and convertible into 700,000,000 Existing Shares at an initial conversion price of HK\$0.5 per Existing Share (subject to adjustments).

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) Directors' interests in assets of the Company

As disclosed in the Company's circular dated 17 August 2009, the Group entered into a sale and purchase agreement (the "Acquisition") on 29 April 2009 with Ms. Chen whereby Ms. Chen had agreed to sell and the Group had agreed to purchase companies which have beneficial interest in a property located in Macau at a total consideration of HK\$900 million. As at the Latest Practicable Date, the Acquisition has not yet been completed. The updated status of the Acquisition has been disclosed in the announcement of the Company dated 31 December 2010.

Save as disclosed above, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

Save for Ms. Chen, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

(c) Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Existing Shares or underlying Existing Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of Existing Shares or underlying Existing Shares held	Approximate % of interests held
Eternity	Beneficial owner/interests of controlled corporation	8,946,881,081	182.15
Riche (BVI) Limited	Interests of controlled corporation	821,881,081	16.73
Simple View	Beneficial owner	821,881,081	16.73
Heung Wah Keung Family Endowment Limited	Beneficial owner	276,676,659	5.63

All interests stated above represent long positions.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Existing Shares or underlying Existing Shares which would fall to be disclosed to the Company under provisions

of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date of which the latest published audited financial statements of the Company were made up.

6. MISCELLANEOUS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

7. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO

Donvex Capital Limited is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Donvex Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Donvex Capital Limited was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

- (a) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 26 to 40 to this circular;
- (b) the written consents of the experts referred to in the section headed “Expert and Consent” in this appendix;
- (c) the Subscription Agreement; and
- (d) this circular.

NOTICE OF SGM



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of China Star Entertainment Limited (the “**Company**”) will be held at Board Room (1st Floor), South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 6 May 2011 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without modification, the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

- (a) subject to the fulfillment or waiver of the conditions as set out in the conditional subscription agreement (the “**Subscription Agreement**”, a copy of which having been produced to the Meeting marked “A” and initialled by the chairman of the Meeting for the purpose of identification) dated 21 January 2011 and entered into between the Company and Eternity Investment Limited (“**Eternity**”) in respect of the subscription of convertible bonds (the “**Convertible Bonds**”) in the maximum principal amount of HK\$650,000,000 in two tranches, the Subscription Agreement and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue and the creation of the Convertible Bonds be and is hereby generally and unconditionally approved in all respects and any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to execute by way of deed poll the instrument (the “**Instrument**”) constituting the Convertible Bonds;
- (c) the allotment and issue of the new shares of HK\$0.01 each in the share capital of the Company (the “**Conversion Shares**”) upon exercise of the conversion right attaching to the Convertible Bonds be and is hereby approved and any one or more of the

NOTICE OF SGM

Directors be and is/are hereby authorised to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the Instrument; and

- (d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient in his/her/their opinion to implement and/or give effect to the Subscription Agreement, including but not limited to the issue and creation of the Convertible Bonds to Eternity and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds, and any other matters contemplated thereunder.”

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

Hong Kong, 1 April 2011

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head office and principal place of
business in Hong Kong:*
Unit 3409,
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A form of proxy for use at the Meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the Meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.